

**SUMMARIZED MINUTES  
CITY OF SCOTTSDALE AUDIT COMMITTEE  
THURSDAY, APRIL 5, 2007**



**City Hall Kiva Conference Room  
3939 N. Drinkwater Blvd  
Scottsdale, AZ 85251**

**MEMBERS PRESENT:** Committee Chairman Jim Lane  
Wayne Ecton, Committee Member  
Ron McCullagh, Committee Member

**CITY STAFF PRESENT:** Kyla Anderson, Audit Associate  
Lisa Blyer, Assistant to Mayor & Council  
Cyndi Coniam, HR Operations & Administration Manager  
Cheryl Dreska, City Auditor  
Stella Fusaro, Senior Auditor  
Joyce Gilbride, Accounting Coordinator  
Lisa Gurtler, Finance Manager  
Judy Melton, Neighborhood Resource Manager  
Tim Miluk, Human Services Manager  
Lisa Murphy, Accounting Director  
Paula Novacek, Accounting Manager  
Stuart Posner, Internal Auditor  
Cheryl Thompson, Library Administrative Coordinator

**CALL TO ORDER/ROLL CALL**

Chairman Lane called the Audit Committee meeting to order at 10:33 a.m. Roll call was taken confirming the presence of all Committee Members.

**MINUTES - Approval of March 1, 2007, Committee Meeting Minutes**

Committee Member McCullagh made a motion to approve the March 1, 2007, minutes. Committee Member Ecton seconded the motion. The minutes were approved by a unanimous vote of three (3) to zero (0).

## **GENERAL BUSINESS**

### **Agenda Item 1 – Discuss Draft Audit Report – Cash Handling**

Ms. Kyla Anderson reported that this was a limited scope audit. Staff tested for compliance with ARs 268 and 270. They found that, in general, management and staff are aware of the regulations. Many of the conditions noted have been corrected.

Committee Member Ecton commented that staff did a really good job and he was pleased that nothing disastrous was found. The controls need to be tightened in some cases, although he understands that sometimes it is very difficult to separate duties. The use of volunteers presents an extra challenge. All the points have been adequately addressed.

Chairman Lane asked about the Z tape discrepancy at Mustang Library. If the Z tape is run on all registers, he asked why there was a situation. Ms. Cheryl Dreska explained that only one register at the Book Corral was affected. Ms. Cheryl Thompson confirmed that the procedure has now been changed.

Turning to item No. 6 on the Action Plan for Mustang, Chairman Lane asked why there was no documentation near the cash register outlining security features on U.S. paper money. Ms. Dreska explained that this information was distributed after the audit.

Chairman Lane commented on item No. 4 on the Action Plan for the City Store; the key for the City Store cash register being kept where at least one person who was not a cashier knew its location. He asked whether management's response that this practice had started because of a lack of manpower was reasonable in the circumstances.

Ms. Dreska replied that it is hard to say. Another solution could have been found, but staff make their best decision for the situation without expertise or training. The situation is corrected now.

Chairman Lane asked about the situation described at the Granite Reef Neighborhood Resource Center in which there were no signs or barriers to signify staff-only areas and only a minimal barrier between the cash register and the customer area. He understands the circumstances as described and asked whether the auditors feel there is any danger associated with this situation.

Ms. Dreska replied that the Center staff have taken appropriate steps to remedy this situation.

Chairman Lane noted appreciation for the letter from the Financial Services department regarding a cost benefit analysis and that Financial Services has completed some reviews of other cash handling areas.

Committee Member Ecton made a motion to recommend that the Cash Handling Audit report be forwarded to City Council. Committee Member McCullagh seconded the motion, which carried by a unanimous vote of three (3) to zero (0).

## **Agenda Item 2 – Update by City Auditor on status of current projects**

### **a. Cab Connection Program**

Ms. Dreska reported that the Cab Connection program audit is currently undergoing management review and comment.

### **b. WestWorld Financial Audit**

Staff have substantially completed the event testing and will be moving on to expenditures next.

### **c. Cultural Council Management Services Agreement**

Ms. Dreska reported that staff are ready to start testing the Cultural Council Management Services Agreement.

### **d. Housing Assistance and Community Block Grant Development Programs**

Staff are moving forward with finalizing the preliminary survey in order to identify testing.

Chairman Lane inquired whether the audit of the Cultural Council is being coordinated with the changes that are being made to the contract.

Ms. Dreska explained that this audit is a test of prior conditions. They are looking at the residual part of the contract including how utility costs are split, whether preventative maintenance programs are in place, et cetera. The testing may reveal things that can be rolled forward into the consideration of the new agreement, but the auditors are not looking at that specifically.

Chairman Lane commented that the areas of concern may lead to revised terms in the new contract.

Ms. Dreska agreed that by the time this audit is completed, the current agreement will still be in place. The contract administrator, City Council, and the Cultural Council will need to address any conditions identified during the audit that need to be considered as part of the new agreement.

Committee Member Ecton commented that it is not the place of the auditors to directly suggest changes to the contract. The people responsible for drawing up the new contract may see areas identified in the audit that can be addressed in the new contract.

Chairman Lane said he wanted to be sure that lack of clarity will not be an issue with the new contract.

Committee Member Ecton noted that the Joint Task Force on the Arts has invited Ms. Dreska to provide her input. This is yet another opportunity to obtain the auditors' perspective.

**Agenda Item 3 - Discussion, consideration, and possible action on process to follow for hiring of Deputy City Auditor.**

Ms. Dreska recalled that at the last meeting they had discussed the hiring process and whether anyone from the Audit Committee would participate in the interview process. Chairman Lane stated that Committee Member Ecton wanted this agenda item.

Committee Member Ecton explained that he wants to make sure that the successful candidate has supervisory experience as well as technical expertise.

Chairman Lane agreed, noting that this individual might be a potential replacement for Ms. Dreska if City Council agrees. The person should be able to interact with Councilmembers. Professional credentials would be a given.

Committee Member Ecton added that the successful candidate must have the ability and experience to communicate up and down through the channels of the organization. He summarized that in this case, the City is not looking to train someone for this position.

Chairman Lane confirmed that Ms. Dreska requested the Audit Committee's input on qualifications for the Deputy City Auditor.

**Agenda Item 4 – Discussion, consideration, and possible action to approve the draft pamphlet prepared by the City Auditor's Office for distribution to staff as part of outreach efforts.**

At the request of Committee Member McCullagh, Ms. Dreska introduced the staff members in attendance.

Chairman Lane noted this review was at the request of Committee Member Ecton, who had requested some changes to the draft pamphlet.

Committee Member Ecton stated he is now comfortable with the revision. He had a discussion with Ms. Dreska regarding the sentence, "The Audit Committee cannot direct changes to a report or management response, but the Committee may request additional information from the City Auditor or City Manager's designated representative if there is an issue or proposed solution that needs clarification." After the discussion, he was comfortable with this sentence. He explained that he wanted to fully understand what "may request additional information" meant. He now understands that this refers to clarification. The Audit Committee cannot direct staff to go back and raise new questions about an audit they have performed.

Chairman Lane noted that ultimately this Committee could request that the scope of an audit be expanded or they could recommend that City Council make that request.

Noting that this pamphlet will be issued to staff, Chairman Lane wanted to be sure that the document does not set policy or set any restrictions on what the City Auditor's Office can do.

Ms. Dreska replied that they have a lot of latitude under the Charter, which is set out in the City Code. The auditors need that latitude to do their work properly. Once they release a completed audit report, it is their report; they determine what is in it. Any

modification to language is solely at their discretion and is never at the direction of the Audit Committee. The pamphlet is to inform staff what to expect during an audit and does not take precedence over City Code.

Chairman Lane said he has no difficulty with that, but understands Committee Member Ecton's concern in this regard. If the Committee Members read a report that is not clear enough and ask staff to make it clearer, is that asking for information or giving direction?

Ms. Dreska replied that she considers this a request for information, since the Committee cannot direct staff to make changes.

Chairman Lane summarized that the auditors are not taking direction, but if the Committee Members feel they cannot recommend that City Council accept a report, does that denote direction? He wanted to avoid any possibility of misinterpretation.

As a point of clarification, Ms. Dreska noted that in the current structure of the ordinance, the Audit Committee does not have a role to recommend forwarding a report to City Council. The Audit Committee's role is to review the audit plan and help coordinate issues between the Auditor's Office and the City Manager's or another Charter office. This is in accordance with professional auditing standards.

Chairman Lane noted that ultimately City Council accepts audit reports.

Ms. Dreska countered that City Council receives the report, which is not the same as acceptance. The auditors' primary focus is ultimately to do their work to Yellow Book standards. The Audit Committee reviews the audit reports to understand what the findings are and how areas of concern are being addressed. If the auditors learn of an issue, they would be willing to consider a different perspective. She noted that a report is not a good product if it does not meet the best solution.

Chairman Lane said that is understood. As a Committee of the Council they have a responsibility to review audit reports on behalf of City Council. His only concern regarding language in the pamphlet was not to put any restrictions on the Audit Committee or the Auditor's Office. Ms. Dreska reiterated that this is meant to guide staff as to what to expect from the audit process.

Committee Member McCullagh commented that this does accomplish what they wanted and gives them room to disagree. If they are in disagreement, they can ask for the scope to be expanded or for a specific area to be revisited. He opined that, if necessary, the Committee could write a dissenting opinion if a report they disagreed with went to full Council.

Chairman Lane reiterated that the pamphlet is not a legal document. Committee Member McCullagh suggested an addition to the opening notice to the effect that, "This neither expands nor restricts the purview of the Audit Committee or the City Auditor as outlined in the Charter or the Code."

Ms. Dreska undertook to insert this language on the first page.

Ms. Lisa Murphy commented that her department staff are used to audits. She believes that the pamphlet will be helpful to staff in other departments who have no experience of audits and also to the auditors. She welcomes its publication.

**PUBLIC COMMENTS**

None.

**COMMITTEE COMMENTS**

None.

**ADJOURNMENT**

With no further business to discuss, Committee Member McCullagh made a motion to adjourn the public meeting of the Audit Committee. Committee Member Ecton seconded the motion and the motion carried. The Audit Committee meeting was adjourned at 11:12 a.m.

Submitted by

Reviewed by

A/V Tronics, Inc.

Cheryl Dreska  
City Auditor